

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 EB-11 COME-00 INT-08 TRSE-00

FEA-02 SCI-06 OMB-01 AID-20 CIEP-02 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01

PRS-01 SPC-03 SS-20 USIA-15 SAM-01 DRC-01 AF-10 /179 W

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P R 080946Z FEB 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9902

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

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STATE ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ENRG, JA

SUBJ: ENERGY: PETROLEUM PRICE SITUATION IN JAPAN

SUMMARY: JAPANESE REFINERS, INCLUDING THOSE AFFILIATED WITH U.S. MAJORS, ARE BECOMING INCREASINGLY UNHAPPY WITH MITI CONTROLS WHICH HAVE KEPT PETROLEUM PRODUCT PRICES CLOSE TO DECEMBER LEVELS DESPITE MUCH HIGHER CRUDE OIL COSTS. HOWEVER, MITI, ANXIOUS TO CONTROL INFLATIONARY EFFECTS OIL PRICE HIKES WOULD HAVE BELIEVES REFINERS NOT SERIOUSLY AFFECTED AS YET. IF PRICE FREEZE WERE REMOVED, REFINERS LIKELY TO RAISE WHOLESALE PRICES BY AVERAGE 60-65 PERCENT. MITI NOW STUDYING NEW SYSTEM OF PRICE GUIDANCE, WHICH MITI MIN NAKASONE HAS SAID MAY GO INTO EFFECT ABOUT MARCH 10. END SUMMARY.

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1. DESPITE RECENT OPEC ACTIONS THAT DRASTICALLY INCREASED PRICE

OF CRUDE OIL TO JAPANESE COMPANIES, WHOLESALE AND RETAIL PRICES FOR PETROLEUM PRODUCTS ON JAPANESE DOMESTIC MARKET HAVE CHANGED VERY LITTLE FROM DECEMBER LEVELS. THIS SITUATION DUE TO INSISTENCE BY MITI THAT REFINING INDUSTRY HOLD LINE ON ALL PRODUCT PRICES AT DECEMBER RATES. WHILE REFINERS HAD NO REAL OBJECTION TO MITI'S PRICE FREEZE POLICY IN JANUARY, WHEN HIGHER PRICED CRUDE OIL WAS STILL IN TRANSIT FROM PRODUCING STATES AND IN PROCESSING STAGE, EFFECT OF HIGHER CRUDE COST AND ENFORCED LOW SALES PRICES IS NOW BEGINNING TO BE FELT.

2. JAPANESE REFINERS, INCLUDING AMERICAN AFFILIATES, ARE BECOMING INCREASINGLY RESTIVE ABOUT PRICE FREEZE. ACCORDING TO SOURCE AT MOBIL SEKIYU (MOBIL'S AFFILIATE IN JAPAN), COMPANY IS NOW LOSING ABOUT \$4.75 PER BARREL OF OIL PROCESSED, AS OPPOSED TO NORMAL PROFIT MARGIN OF \$.011 PER BARREL. EXXON SOURCE ALSO SAID ITS AFFILIATE LOSING SIMILAR AMOUNTS. BOTH ACKNOWLEDGE THAT BY DRAWING DOWN ACCUMULATED INVENTORIES OF LOWER PRICED OIL, THEY HAVE BEEN ABLE TO LIVE WITH IMPACT OF MITI ACTION PETROLEUM ASSOCIATION OF JAPAN HAD SIMILAR COMMENT RE PRESENT EFFECT OF FREEZE ON ITS MEMBERS. COMPANIES MAINTAIN, HOWEVER, THAT THIS SITUATION IS CHANGING AND THEY ARE PRESSING MITI TO ALLOW PRICE INCREASES. MOBIL OFFICIAL NOTED THAT HIS COMPANY HAD POINTED OUT TO MITI THAT FRANCE, GERMANY, U.K., NETHERLANDS, AND SOUTH AFRICA HAD ALL ALLOWED COMPANY TO PASS ON INCREASED COSTS.

3. MITI ON OTHER HAND APPEARS TO BELIEVE THAT PRICES SHOULD BE FROZEN FOR AS LONG AS POSSIBLE. MITI'S RATIONALE, AS SET FORTH IN PRESS ARTICLE THAT CLEARLY OFFICIALLY INSPIRED, IS THAT GIVEN THE TWENTY DAY AVERAGE TRANSPORTATION TIME FOR CRUDE OIL TO JAPAN AND THE FIFTY DAY PETROLEUM INVENTORY LEVEL, REFINERS WILL NOT FEEL IMPACT OF INCREASED CRUDE OIL COSTS (WHICH BECAME EFFECTIVE JANUARY 1) UNTIL MARCH 10. IN ADDITION, ARTICLE INDICATES THERE ARE SOME WITHIN MITI WHO BELIEVE THAT COMPANIES REAPED WINDFALL PROFITS BY RAISING PRICES IN DECEMBER MORE THAN NECESSARY, AND THAT OIL PRICE FREEZE SHOULD CONTINUE THROUGH END OF MARCH TO ABSORB THESE PROFITS.

4. IN RESPONSE TO QUESTION IN DIET FEBRUARY 5 ABOUT WHAT GOJ PLANNED TO DO WHEN PRICE FREEZE ENDED, MITI MIN NAKASONE REPORTEDLY SAID HIS AGENCY WAS PREPARING NEW GUIDELINES UNDER LIMITED OFFICIAL USE

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WHICH QTE SEMI-MANDATORY UNQTE PRICES WOULD BE SET FOR OIL AND PETROLEUM PRODUCTS. NEW PRICE LEVELS, HE SAID, WOULD BE ESTABLISHED BY AROUND MARCH 10, FOLLOWING STUDY OF CRUDE OIL COSTS, RETAIL PRICES, AND INVENTORY LEVELS.

5. ACCORDING TO MIKI OFFICIALS, MIN NAKASONE IS DRIVING FORCE BEHIND MOVE TO ESTABLISH GOVT PRICE CONTROL SYSTEM TO SUCCEED PRICE FREEZE. OFFICIALS NOTE THAT IN RESPONSE TO THEIR REQUESTS,

MITI HAS RECEIVED QUOTE MOUNTAINS UNQUOTE OF DATA FROM OIL COMPANIES, AND IS NOW WORKING VERY HARD TO DETERMINE FINANCIAL STATUS OF COMPANIES AND FROM THERE TO TRY TO DEVELOP AN EQUITABLE PRICE CONTROL SYSTEM. MITI HAS ALSO REQUESTED INFORMATION ON U.S. OIL PRICE CONTROL SYSTEM (EMBASSY SUPPLIED COPY OF FEO'S PETROLEUM ALLOCATION AND PRICE REGULATIONS). ACCORDING TO ONE MITI OFFICIAL INVOLVED IN STUDIES, PRESENT THINKING IS THAT MITI WILL NOT USE PROVISIONS OF RECENTLY-PASSED EMERGENCY LEGISLATION TO CONTROL PRICES, BUT RATHER IS LIKELY TO USE SOME FORM OF ADMINISTRATIVE GUIDANCE. AS YET, HOWEVER, MITI HAS NOT DETERMINED HOW TO ACCOMPLISH ITS OBJECTIVE OF CONTROLLING RATE AT WHICH RETAIL PRICES OF PETROLEUM PRODUCTS RISE ONCE PRESENT PRICE FREEZE IS LIFTED, OR WHETHER IT WANTS TO GET INTO BUSINESS OF PERMANENT PRICE CONTROLS ON OIL PRODUCTS. TIMING OF ANY NEW MEASURES IS ALSO VERY MUCH UP IN AIR, ACCORDING MITI OFFICIALS.

6. PRESS REPORTS THAT OIL REFINERS CONSIDERING (WHOLESALE) PRICE HIKES AVERAGING 60-65 PERCENT, IF FREEZE WERE LIFTED COMPLETELY. ONE JAPANESE REFINERY SOURCE CONFIRMED THAT THIS GENERALLY ACCURATE AND ADDED THAT HIS COMPANY WANTED TO RAISE AVERAGE PRICE OF ALL PETROLEUM PRODUCTS FROM ABOUT 15,000 YEN PER KILOLITER TO 25,000 YEN.

7. COMMENT: IT APPEARS LIKELY, ESPECIALLY IN VIEW OF UPCOMING ELECTIONS IN JUNE OR JULY WHERE INFLATION IS EXPECTED TO BE THE NUMBER ONE ISSUE, THAT GOJ WILL DECIDE TO SPREAD EFFECT OF INCREASED PRICES OVER AS LONG A TIME AS POSSIBLE.

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